



# SCHEDULE MS

(FORM 40)

## Alabama Department of Revenue

COMPLETE THIS SCHEDULE IN CONJUNCTION WITH FORM 40

19

Attachment  
Sequence No. 06

Name(s) as shown on Form 40

Your social security number

### PART I

### DETERMINATION OF INCOME ATTRIBUTABLE TO ALABAMA

	B All Sources	C Alabama	Enter Column C on Form 40
1 Enter net income / (loss) from federal Schedule C or federal Schedule F .....			
2 Net other business income / (loss) to be apportioned .....			
3 Total apportionable income / (loss) (add lines 1 and 2) .....			
4 Alabama Apportionment Factor (from Part III, line 26) ..... %			
5 Alabama apportioned income / (loss) (multiply line 3 by line 4) .....			Page 2, Part 1, line 2
6 Non-business income / (loss) to be allocated (Part II, columns E and F) .....			
7 Income / (loss) not subject to allocation or apportionment .....			
8 Total Adjusted Gross Income / (Loss) (col. B, lines 3, 6, and 7) (col. C, lines 5, 6, and 7) .....			
9 Alabama Percentage of Adjusted Gross Income / (Loss) (divide column C, line 8 by column B, line 8) .....		%	

### PART II

### ALLOCATION OF NONBUSINESS INCOME / (LOSS) AND EXPENSE

DIRECTLY ALLOCABLE ITEMS OF NONBUSINESS INCOME OR (LOSS)	ALLOCABLE GROSS INCOME / (LOSS)		RELATED EXPENSE		NET OF RELATED EXPENSE	
	Column A All Sources	Column B Alabama	Column C All Sources	Column D Alabama	Column E All Sources	Column F Alabama
1a						
b						
c						
2 NET NONBUSINESS INCOME / (LOSS)						
Enter Column E and F totals (income / (loss)) on line 6 of Part I .....						

### PART III

### APPORTIONMENT FACTOR

TANGIBLE PROPERTY AT COST FOR PRODUCTION OF BUSINESS INCOME	ALABAMA		ALL SOURCES	
	BEGINNING OF YEAR	END OF YEAR	BEGINNING OF YEAR	END OF YEAR
1 Inventories				
2 Land				
3 Furniture and Fixtures				
4 Machinery and Equipment				
5 Buildings and Leasehold Improvements				
6 IDB/IRB Property (at cost)				
7 Government Property (at FMV)				
8				
9 Construction in Progress (if included)				
10 Totals				
11 Average owned property ((BOY + EOY) ÷ 2)				
12 Annual Rental Expense	\$	X 8 =	\$	X 8 =
13 Total Average property .....	13a		13b	
14 Alabama Property Factor – 13a ÷ 13b = line 14 .....			14	
SALARIES, WAGES, COMMISSIONS & OTHER COMPENSATION RELATED TO THE PRODUCTION OF BUSINESS INCOME		15a ALABAMA	15b ALL SOURCES	15c
15 Alabama Payroll Factor – 15a ÷ 15b = 15c .....				
SALES		ALABAMA	ALL SOURCES	
16 Destination Sales (see instructions) .....				
17 Origination Sales (see instructions) .....				
18 Total Gross Receipts from Sales .....				
19 Dividends .....				
20 Interest .....				
21 Rents .....				
22 Royalties .....				
23 Gross proceeds from capital and ordinary gains .....				
24 Other _____ (Federal 1120, line _____)				
	25a	25b	25c	%
26 Sum of lines 14, 15c, and 25c ÷ 3 = ALABAMA APPORTIONMENT FACTOR .....		26		%

Name(s) as shown on Form 40 (Do not enter name and social security number if shown on other side)

Your social security number

**PART IV FEDERAL INCOME TAX DEDUCTION**

If you are filing separately on your Alabama return and jointly on your Federal return, complete all lines below. Otherwise omit lines 1 through 4.

	<b>B All Sources</b>	<b>C Alabama</b>	<b>Enter Column C on Form 40</b>
<b>1</b> Adjusted Gross Income (from Part I, line 8, column A and B) .....			
<b>2</b> Spouse's Adjusted Gross Income .....			
<b>3</b> Adjusted Gross Income both spouses (add lines 1 and 2, column B) .....			
<b>4</b> Divide line 1, column C by line 3, column B (enter percentage here and on line 6) .....		%	
<b>5</b> Enter Federal Income Tax Liability as shown on your 1994 Federal Return .....			
<b>6</b> If you completed lines 1 through 4 above, enter percentage from line 4. Otherwise, enter percentage from Part I, line 9 .....		%	
<b>7</b> Federal Income Tax Deduction Allowable. (Multiply amount on line 5 by percentage on line 6) .....			Page 1, line 14

**PART V DEPENDENT AND PERSONAL EXEMPTIONS**

	<b>C Alabama</b>	<b>Enter Column C on Form 40</b>
<b>1</b> Multiply \$300 by total number of dependents claimed on Form 40, Page 2, Part III, line 1c. ....		
<b>2</b> Enter percentage from Part I, line 9 .....	%	
<b>3</b> Dependent Exemption Allowable. Multiply amount on line 1 by percentage on line 2 .....		Page 1, line 16
<b>4</b> Personal exemption (from Form 40, lines 1, 2, 3, or 4) .....		
<b>5</b> Personal Exemption Allowable. Multiply amount on line 4 by percentage on line 2 .....		Page 1, line 15

**PART VI DEDUCTIONS**

If you are claiming itemized deductions on Form 40, Schedule A, complete lines 1 through 5. Otherwise complete lines 6 through 10.

	<b>C Alabama</b>	<b>Enter Column C on Form 40</b>
<b>1</b> Total Itemized Deductions to be prorated (add lines 4, 9, 13, 17, and 24 from Schedule A) .....		
<b>2</b> Enter percentage from Part I, line 9 .....	%	
<b>3</b> Multiply line 1 by the percentage on line 2 .....		
<b>4</b> Total other Itemized Deductions (add lines 18c and 23 from Schedule A) .....		
<b>5</b> TOTAL ITEMIZED DEDUCTIONS (add lines 3 and 4) .....		Page 1, line 13
<b>6</b> Enter Total Adjusted Gross Income from Part I, line 8, column B .....		
<b>7</b> Multiply line 6 by 20% and enter here .....		
<b>8</b> If you check filing status 1, 3, or 4 on Form 40, enter \$2,000. If you check filing status 2 on Form 40, enter \$4,000 .....		
<b>9</b> Enter the smaller of line 7 or line 8 .....		
<b>10</b> STANDARD DEDUCTION ALLOWABLE. (Multiply line 9 by line 2) .....		Page 1, line 13

ALABAMA DEPARTMENT OF REVENUE  
Instructions for Schedule MS

## General Instructions

*If your net income is from personal services including wages reported on Federal Form W-2, do not use this form. The provisions of the Multistate Tax Compact do not apply to you. You should file your return and claim credit for taxes paid to other states on Schedule CR using the instructions contained in the Form 40 Booklet.*

The Schedule MS is to be used in conjunction with the Form 40 to compute the income, deductions and exemptions to be used to arrive at Alabama income.

### Purpose of Form

Alabama Code Sections 40-27-1 through 40-27-6 require that resident individual taxpayers having business income or loss from self-employment both within and without Alabama shall allocate and/or apportion the net income of the business rather than be allowed a credit for taxes paid to another state on income taxable to the other state. Any taxpayer having a business entity engaged in business activity within Alabama and any other state may qualify to use Schedule MS.

The apportionment rules of the multistate tax compact (Section 40-27-1) are applicable to any resident taxpayer having business income, regardless of whether or not the taxpayer has nonbusiness income. The allocation rules are applicable to any resident taxpayer having nonbusiness income, regardless of whether or not the taxpayer has business income.

Section 40-27-1, Article IV.1(a), defines "business income" as income arising from transactions and activities in the regular course of the taxpayer's trade or business including income from tangible and intangible property if the acquisition, management, and disposition of the property constitutes an integral part of the taxpayer's regular trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. "Nonbusiness income" is all income other than business income.

Income not subject to allocation and apportionment may include, but is not limited to income from a business activity as a financial organization, a public utility, or the rendering of purely personal services by a resident individual. "Personal services" refer to any activity for a taxable year which is generally recognized and accepted as the rendering of services of a personal character. Fields of activities generally recognized and accepted as rendering services of a personal character include, but are not limited to, health (the provision of medical services by physicians, nurses, dentists, and other similar health-care professionals), law, engineering (including surveying and mapping), architecture, accounting, actuarial science, performing arts (the provision of services by actors, actresses, singers, musicians, entertainers, athletes, and similar artists), and consulting (the provision of advice and counsel).

Questions pertaining to the proper use of this form and multistate computations should be directed to the Income Tax Division at 242-1000.

## Form Instructions

### Instructions for Parts I and II

Enter on Part II all items of nonbusiness income, nonbusiness loss, and nonbusiness expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Regulation 810-27-1-4-.01 for a discussion of the classification of income and expense into business and nonbusiness categories and the assignment of nonbusiness items to specific jurisdictions.

Beside the line number in Part II, enter the item description. In Column A enter the total amount of gross income or loss to be excluded from apportionable income. In Column B enter the amount of gross income or loss allocable to Alabama.

Enter total nonbusiness expense in Column C and any allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and, in fact, may be present when there is no nonbusiness income. Expenses which are not directly identifiable as business or nonbusiness must be prorated. See Regulation 810-27-1-4-.01(d). The method for prorating interest expense is to multiply total interest expense deducted on the federal return by a fraction, the numerator of which is the average amount invested in nonbusiness assets at cost and the denominator of which is the average amount invested in total assets at cost. Investments originally acquired by means of stock for stock swaps may be eliminated from both the numerator and the denominator of the nonbusiness interest expense proration factor.

Subtract Column C from Column A and enter the remainder in Column E. Subtract Column D from Column B and enter the remainder in Column F.

Add the amounts in Columns E and F, and enter the totals on line 2. Carry the total of Column E to Part I, line 6. Carry the total of Column F to Part I, line 6.

### Instructions For Part III

The taxpayer's business activity in Alabama is represented by the apportionment percentage. Except for special cases provided for in Paragraph (6) of Regulation 810-27-1-4-.18, the apportionment factor consists of the average of three other factors: property, payroll, and sales. See Regulation 810-27-1-4-.09 through 810-27-1-4-.18 for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

#### Property Factor

In the appropriate columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

**LINE 1.** Inventories

**LINE 2.** Land

**LINE 3.** Furniture and fixtures

**LINE 4.** Machinery and equipment

**LINE 5.** Buildings and leasehold improvements

**LINE 6.** Property financed through industrial development boards or by industrial revenue bonds issued by municipalities. **All Industrial Development Board property utilized by the taxpayer will be included at its original cost basis.**

**LINE 7.** Government Property. **All government property (whether local, state, or federal), when such property is made available for use by the taxpayer, will be reported at its current fair market value.**

**LINE 8.** Any other real or tangible personal property used in production of business income

**LINE 9.** Less Construction in Progress (if included in the amounts on lines 1 through 8)

**LINE 10.** Enter in each column the totals of lines 1 through 9.

**LINE 11.** Enter in the appropriate column the average (beginning of year plus end of year values divided by 2) value of property in Alabama and All Sources. See Reg. 810-27-1-4-.12 for rules regarding computations other than beginning and end of year values.

**LINE 12.** In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Alabama and All Sources. Annualize for short-period returns. Multiply the annual rent expense by 8 and enter the result in the End of Year column. This is

the capitalized rental value.

**LINE 13a.** Add the amounts on lines 11 and 12 in the End of Year column for Alabama.

**LINE 13b.** Add the amounts on lines 11 and 12 in the End of Year column for All Sources.

**LINE 14.** Divide the amount on line 13a by the amount on line 13b and enter the percentage on line 14. This is the ALABAMA PROPERTY FACTOR.

### Payroll Factor

**LINE 15a.** Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama.

**LINE 15b.** Enter the amount of wages or other compensation paid to employees for the production of business income for All Sources. (Include officers' salaries.)

**LINE 15c.** Divide the amount on line 15a by the amount on line 15b and enter the percentage on line 15c. This is the ALABAMA PAYROLL FACTOR.

### Sales Factor

**LINE 16.** Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations both within and without Alabama.

**LINE 17.** Enter the amount of sales shipped from an Alabama origination to any state or foreign country where this corporation is not taxed. Also enter total sales to the U.S. government shipped from Alabama.

**LINE 18.** In the Alabama column, enter the total of lines 16 and 17. In the All Sources column enter total sales from all sources. If this amount does not correspond with line 1 of federal Form 1120, attach an explanation and reconciliation.

**LINE 19.** Enter in the appropriate columns the gross business dividends, if any. (Note that any dividends entered here will be included in apportionable income in Part I.)

**LINE 20.** Enter in the appropriate columns the gross business interest income.

**LINE 21.** Enter in the appropriate columns the gross business income from rents.

**LINE 22.** Enter in the appropriate columns the gross business income from royalties.

**LINE 23.** Enter in the appropriate columns the gross receipts from the sale or disposition of assets used in the business. See Reg. 810-3-31-.02 for exclusion of amounts which would distort the factor.

**LINE 24.** Enter in the appropriate columns the amounts of other business gross receipts and identify the nature of such receipts and their location in the federal return.

**LINE 25a.** Total the Alabama column for lines 18 through 24.

**LINE 25b.** Total the All Sources columns for lines 18 through 24.

**LINE 25c.** Divide the amount on line 25a by the amount on line 25b and enter the percentage on line 25c. This is the ALABAMA SALES FACTOR.

**LINE 26.** Add lines 14, 15c, and 25c. Divide by 3. This is the ALABAMA APPORTIONMENT PERCENTAGE. Enter here and on line 4, Part I. (If any factor is not utilized in the production of income, it shall be eliminated and the denominator reduced accordingly.)

## Instructions for Part IV –

### Federal Income Tax Deductions

The Federal income tax allowed as a deduction to a multistate taxpayer of Alabama is the total Federal income tax liability shown on the 1994 Federal return reduced by any self-employment tax and the balance prorated by the percentage of the income earned in Alabama to the total income from all sources. Self-employment, social security and Medicare taxes can only be claimed if you itemize deductions on Schedule A.

If you filed a joint Federal return and have elected to file a separate Alabama return, you must complete all lines in Part IV to determine your allowable deduction. If you are single or married and filing a joint Alabama return with your spouse, you should skip lines 1 through 4.

**LINE 1.** Enter your total adjusted gross income amounts from Part I, line 8, columns A and B.

**LINE 2.** Enter on line 2, column B only, your spouse's total adjusted gross income which is not included in line 1 above but is included in your joint Federal income tax return.

**LINE 3.** Add lines 1 and 2 to obtain the total adjusted gross income from all sources of both spouses.

**LINE 4.** Divide the amount on line 1, column C by the amount on line 3, column B. Enter the percentage on line 4 and also on line 6.

**LINE 5.** Enter the Federal income tax liability shown on your 1995 Federal income tax return.

#### If you filed 1995 –

(1) **Form 1040EZ** — enter the amount shown on line 8.

(2) **Form 1040A** — enter the amount shown on line 25.

(3) **Form 1040** — enter the amount shown on line 44. (The amount on line 44 should be increased by any amounts shown on lines 46, 48, and 49.)

**LINE 6.** If you completed lines 1 through 4, enter the percentage from line 4. If you were not required to complete lines 1 through 4, enter the percentage shown on Part I, line 9.

**LINE 7.** Multiply the amount on line 5 by the percentage on line 6. This is your Federal income tax deduction. Enter the amount on this line and also on line 14, page 1, Form 40.

## Instructions for Part V –

### Dependent and Personal Exemptions

**LINE 1.** Multiply the number of dependents claimed on Form 40, Page 2, Part III, line 1c by \$300.

**LINE 2.** Enter percentage from Part I, line 9.

**LINE 3.** Multiply amount on line 1 by percentage on line 2. Enter the amount on line 3 and on Form 40, Page 1, line 16.

**LINE 4.** Enter personal exemption amount from Form 40, Page 1, lines 1, 2, 3, or 4.

**LINE 5.** Multiply amount on line 4 by percentage on line 2. Enter this amount on line 5 and on Form 40, Page 1, line 15.

## Instructions for Part VI –

### Deductions

You may elect to itemize your deductions for medical expense, interest, contributions, taxes, etc. OR you may claim the Standard Deduction, but you cannot claim both.

If you elect to claim the Standard Deduction in your 1994 Alabama return and it becomes necessary to change to itemized deductions, you may do so by filing an amended return. You should figure your deduction both ways and claim the one that gives you the larger deduction.

If you are married and filing separate Alabama returns, **both** spouses must itemize their deductions or **both** must claim the Standard Deduction. Each spouse may claim only the itemized deductions he/she actually paid. See the instructions for **Schedule A, Form 40** for items that may be claimed as itemized deductions.

**Itemized Deductions.** If you elect to itemize your deductions, you should check **box a** on Form 40, line 13 and complete and attach Schedule A, Form 40. The amount shown on line 5 should be entered on line 13.

**Standard Deduction.** If you elect to claim the Standard Deduction, you should check **box b** on Form 40, line 13. The amount shown on line 10 should be entered on Form 40, line 13.